

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REVIEW REPORT
OF
OFFICE OF THE ATTORNEY GENERAL
STATE OF INDIANA
April 1, 2006 to February 29, 2008



FILED
06/10/2008

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AGENCY OFFICIALS

Office

Official

Term

Attorney General

Steve Carter

01-10-05 to 01-11-09



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF OFFICE OF THE ATTORNEY GENERAL

We have reviewed the receipts, disbursements, and assets of the Office of the Attorney General for the period of April 1, 2006 to February 29, 2008. The Office of the Attorney General's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Office of the Attorney General are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

April 22, 2008

OFFICE OF THE ATTORNEY GENERAL
REVIEW COMMENTS
February 29, 2008

SUPPLEMENTATION OF APPROPRIATIONS

The Office of the Attorney General deposited \$9,321.05 of prior fiscal year expenditures as current year refunds of expenditure. By recording these as a refund of the current year's expenditures, the Office of the Attorney General supplemented its State appropriations by the amount identified.

A refund of expenditure can only be used if the original disbursement and the refund or collection are within the same fiscal year. If a collection is not received within the same fiscal year, the collection must be recorded as miscellaneous revenue. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 3)

SPECIAL DISBURSING OFFICER (SDO) ACCOUNTS

Single Purchase Limit

All five SDO advances of the Office of the Attorney General contained several expenditures in excess of the established single purchase limit for each respective advance.

The single purchase limit for the SDO Fund should not be exceeded, except for the payment of utility bills. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

Outstanding Checks

Five checks from the Tort SDO advance had been outstanding for two or more years as of December 31, 2007.

Indiana Code 4-10-10 provides that checks which have been issued and outstanding for two years after December 31 of the year they were written are considered cancelled. The amounts should be returned to the fund center from which they were reimbursed.

Voided Checks

Voided checks were not consistently recorded in the check registers. They were also not consistently defaced and retained for audit. These situations resulted in uncertainty of the status of several checks.

Voided or damaged checks should be rendered non-negotiable and filed for subsequent inspection or audit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

OFFICE OF THE ATTORNEY GENERAL
REVIEW COMMENTS
February 29, 2008
(Continued)

FIXED ASSET INVENTORY

Asset Records

The fixed asset inventory of the Office of the Attorney General is currently in three separate databases: an old database, an Assetrac database, and its Encompass listing. None of the databases are a complete listing of the Agency's current assets. Deletions have not been consistently updated and some assets are on more than one system.

Agencies are responsible for maintaining a manual or automated asset control system for all assets costing more than \$500. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

Auditor of State Inventory Listing

The fixed asset inventory reported to the Auditor of State's office of assets over \$20,000 is not up-to-date.

The Auditor of State needs financial information relating to the state's real and personal property for financial reporting purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

Retirements are any existing items on the state inventory that are no longer used, sold, given to surplus, etc. Retirements include items scrapped, abandoned, or traded. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

Annual Inventory

The physical inventory of the Office of the Attorney General began during the summer of 2007 and is incomplete. The most significant omissions are the assets of the Unclaimed Property Division: 27 of the Agency's 62 automobiles listed on a separate listing of vehicle assignments, and all assets reportable to the Auditor of State.

Once a year a physical inventory is to be taken and compared to the master listing and the agency's listing of assets from their asset control system. The agencies should also include the assets costing more than \$20,000 in their own asset control systems in addition to reporting them to the Auditor of State. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 10)

MEDICAID FRAUD CONTROL UNIT INVESTIGATIVE RECOVERIES

The Medicaid Fraud Control Unit (MFCU) of the Office of the Attorney General investigates potential Medicaid fraud cases and receives related cost recoveries. Investigative cost recoveries are deposited into an Attorney General fund/center and program recoveries are deposited by the Attorney General's accounting division into a Family and Social Services Agency (FSSA) fund/center.

We found collections totaling \$12,290.49 were recorded in the case records as investigative revenues but were incorrectly deposited as FSSA program recoveries in error. This resulted in an overcharge to one federal program and an undercharge to another.

OFFICE OF THE ATTORNEY GENERAL
REVIEW COMMENTS
February 29, 2008
(Continued)

Each agency, department, quasi, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

OFFICE OF THE ATTORNEY GENERAL
EXIT CONFERENCE

The contents of this report were discussed on May 22, 2008, with Brent Embrey, Chief of Staff; Tony Rogers, Controller; and Tom Bodin, Chief Economist. The official response has been made a part of this report and may be found on pages 8 through 10.



STATE OF INDIANA
OFFICE OF THE ATTORNEY GENERAL

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STEVE CARTER
INDIANA ATTORNEY GENERAL

June 4, 2008

Mr. Bruce Hartman, CPA
State Examiner
State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

Dear Mr. Hartman,

This letter will serve as our official response to the Audit Report for the period of April 1, 2003 to February 29, 2008.

Supplementation of Appropriation

The Office of the Attorney General did not intentionally supplement appropriations with \$9,321.05 for refunds of expenditures that were received during transition from one fiscal year to the next. During the review period, this agency properly received and accounted for 2,606 transactions totaling \$120,112,522.79 that we believe better portrays our compliance with state policy. This represents an error rate of .00008. Refunds of expenditure received will be reviewed in detail to insure that such transactions are properly recorded.

Special Disbursing Officer (SDO) Accounts

Overall, this agency disbursed \$107,961 using 780 SDO checks. The review comments represent less than 2% of the number of checks issued and less than half of a percent of the total amount expensed. We note that our monthly reconciliation of accounts for both the check registers and account authority levels had no errors.

Single Purchase Limit

Our analysis of spending limits shows a total of 44 checks or 5.6% of total checks issued exceeded existing limits. The majority of checks issued over existing limits were for purchase of airline tickets for out of state travel (e.g., appearances at the U.S. Supreme Court or Court of Appeals, scheduled training or ongoing litigation). This agency follows the current practice of using a credit card for purchasing airline tickets from the state travel contractor. The cards are linked to the SDO accounts. Additionally, some checks (6) issued were for travel lodging advances to employees as authorized by the SBOA Accounting Manual for State Agencies, Chapter 11. In accordance with the recent legislative change for abandoned property, this agency disposes of unclaimed properties via internet sales for which associated sale fees must be paid by credit card.

Forms 49068, Request for SDO Account Establishment, were prepared and submitted on May 19, 2008 to revise the single purchase limits for all five accounts to accommodate court filing fees, airline ticket purchases, unclaimed property fees and investigations.

Outstanding Checks

The five Tort SDO checks which were over two (2) years old were canceled on April 16, 2008 with the total amount -- \$218.73 -- credited to the fund and center from which they were reimbursed. A total of \$49,440.86 was disbursed from the Tort SDO account during the period, resulting in an error rate of .04%.

Voided Checks

The procedure for recording voided checks was amended to insure that balances reconciled monthly are not affected. All checks voided will be de-faced, rendered non-negotiable and centrally filed for subsequent audits per Chapter 7, Accounting and Uniform Guidelines Manual for State and Quasi Agencies.

Fixed Asset Inventory

The timing of the inventory and Peoplesoft Financials pre- and post implementation requirements effected completion of all actions to transfer all existing assets into the Assetrac system and reconcile items for full implementation of Assetrac.

Asset Records

This agency continues to transition from an inadequate inventory database to a new one. The old database, left from prior administrations, was found inaccurate because items had not been deleted or added accordingly. Adoption of the Assetrac database was in progress during the audit period.

Auditor of State Inventory Listing

During the inventory we found 2 line items listed on the Auditor asset listing that were no longer valid. A search of pre-Administration surplus documents was conducted to locate the actual turn-in date. These items were purchased in the 1982 to 1999 timeframe. We have contacted the Auditor's office to coordinate removal of these items from the Fixed Asset List and will submit an update to remove these items.

There was no material effect on state CAFR reporting as the items in question were depreciated over a five (5) year period with no salvage value per the Capital Asset Policy.

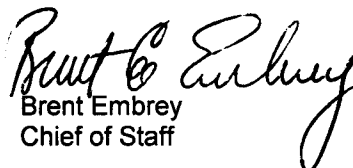
Annual Inventory

Physical inventory of Unclaimed Property will be completed by June 30, 2008. All vehicles, less those recently surplused are accounted for in the Assetrac database. Reportable items over \$20,000 are also in the database. These latter items were uploaded into the Peoplesoft Financials Asset Management module in November 2007 during agency system implementation.

Medicaid Fraud Control Unit Investigative Recoveries

The process for recovering both Medicaid program and investigative costs began shortly before this audit period. The eight transactions identified were recorded as investigative recoveries in case management files; however, they were erroneously reported as Medicaid program recoveries to our accounting department. This is attributable to the difference in the definitions of program income for Medicaid Fraud Control Units per Health and Human Services (HHS) policy versus program income for the Medicaid program. The reporting process was changed to insure correct transmittal of these recoveries. Journal vouchers correcting these collections were prepared and forwarded to the Family and Social Services Agency ("FSSA") for coordination on May 19, 2008. Action continues with FSSA to return these funds to the Medicaid Fraud Control Unit.

Sincerely,


Brent Embrey
Chief of Staff